

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

The Pennsylvania Horticultural Society

June 30, 2021 and 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
The Pennsylvania Horticultural Society

Opinion

We have audited the consolidated financial statements of The Pennsylvania Horticultural Society ("Society"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Pennsylvania Horticultural Society as of June 30, 2021 and 2020, and the results of activities, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always

detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements. In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Philadelphia, Pennsylvania

October 29, 2021

The Pennsylvania Horticultural Society

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 2,661,913	\$ 440,665
Accounts and contributions receivable, net of allowance for doubtful accounts		
Government grants	3,826,649	2,690,825
Other grants, contributions, and bequests	1,557,562	1,589,026
Employee retention credit	701,415	-
Other	2,562,892	1,200,441
Prepaid expenses and other assets	370,495	531,031
Inventory	62,220	80,982
Property and equipment, net	2,253,269	2,585,879
Investments, at fair value	58,868,186	52,882,609
Beneficial interest in perpetual trust	2,206,364	1,759,530
Collections (Note A)	-	-
	-	-
Total assets	\$ 75,070,965	\$ 63,760,988
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 5,882,152	\$ 3,989,906
Accrued pension obligations	1,479,037	3,234,522
Capital lease obligation	38,290	68,728
Deferred revenue and membership dues	985,366	710,309
Tenant improvement allowance	641,284	732,896
Annuities payable	83,120	90,497
Line of credit obligation	1,550,000	-
Installment loan obligations	31,568	46,074
Loan payable - CARES Act	-	1,925,290
	-	1,925,290
Total liabilities	10,690,817	10,798,222
Commitments and contingencies (Note N)		
Net assets		
Without donor restrictions	21,372,866	18,675,769
With donor restrictions	43,007,282	34,286,997
	-	-
Total net assets	64,380,148	52,962,766
Total liabilities and net assets	\$ 75,070,965	\$ 63,760,988

The accompanying notes are an integral part of these consolidated financial statements.

The Pennsylvania Horticultural Society
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Ticket revenue	\$ 4,767,919	\$ -	\$ 4,767,919
Sales	807,837	-	807,837
Events	368,300	-	368,300
Program service revenue	4,735,296	-	4,735,296
Government grants and contracts	6,014,585	1,102,026	7,116,611
Other grants and contributions	1,345,151	2,878,802	4,223,953
Membership dues	1,650,073	-	1,650,073
Interest and dividends, net	315,582	448,112	763,694
Net realized and unrealized gain on investments	5,712,093	8,629,155	14,341,248
Net assets released from program and time restrictions	3,474,614	(3,474,614)	-
Release of endowment under spending rule	863,196	(863,196)	-
	<u>30,054,646</u>	<u>8,720,285</u>	<u>38,774,931</u>
Other Income			
Gain on forgiveness of PPP Loan	1,943,488	-	1,943,488
	<u>31,998,134</u>	<u>8,720,285</u>	<u>40,718,419</u>
Expenses			
Flower Show	13,804,902	-	13,804,902
Urban Greening	12,397,418	-	12,397,418
Education Services	1,517,059	-	1,517,059
Development	2,586,897	-	2,586,897
Meadowbrook Farm	1,027,926	-	1,027,926
	<u>31,334,202</u>	<u>-</u>	<u>31,334,202</u>
Changes in net assets before change in pension benefit obligation	663,932	8,720,285	9,384,217
Postretirement changes other than net periodic benefit costs (Note P)	2,033,165	-	2,033,165
	<u>2,697,097</u>	<u>8,720,285</u>	<u>11,417,382</u>
CHANGES IN NET ASSETS			
Net assets, beginning of year	<u>18,675,769</u>	<u>34,286,997</u>	<u>52,962,766</u>
Net assets, end of year	<u>\$ 21,372,866</u>	<u>\$ 43,007,282</u>	<u>\$ 64,380,148</u>

The accompanying notes are an integral part of this consolidated financial statement.

The Pennsylvania Horticultural Society
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Ticket revenue	\$ 5,349,449	\$ -	\$ 5,349,449
Sales	1,868,075	-	1,868,075
Events	491,860	-	491,860
Program service revenue	3,752,088	-	3,752,088
Government contracts	6,289,977	-	6,289,977
Other grants and contributions	1,807,587	2,240,489	4,048,076
Membership dues	1,522,935	-	1,522,935
Gain on disposal of property	12,034	-	12,034
Interest and dividends, net	402,244	507,859	910,103
Net realized and unrealized loss on investments	(1,036,260)	(1,326,405)	(2,362,665)
Net assets released from program and time restrictions	2,115,889	(2,115,889)	-
Release of endowment under spending rule	817,138	(817,138)	-
	<u>23,393,016</u>	<u>(1,511,084)</u>	<u>21,881,932</u>
Expenses			
Flower Show	10,793,467	-	10,793,467
Urban Greening	11,622,167	-	11,622,167
Education Services	1,810,930	-	1,810,930
Development	2,731,657	-	2,731,657
Meadowbrook Farm	1,144,541	-	1,144,541
	<u>28,102,762</u>	<u>-</u>	<u>28,102,762</u>
Changes in net assets before change in pension benefit obligation	(4,709,746)	(1,511,084)	(6,220,830)
Postretirement changes other than net periodic benefit costs (Note P)	(901,976)	-	(901,976)
	<u>(5,611,722)</u>	<u>(1,511,084)</u>	<u>(7,122,806)</u>
CHANGES IN NET ASSETS			
	(5,611,722)	(1,511,084)	(7,122,806)
Net assets, beginning of year	<u>24,287,491</u>	<u>35,798,081</u>	<u>60,085,572</u>
Net assets, end of year	<u>\$ 18,675,769</u>	<u>\$ 34,286,997</u>	<u>\$ 52,962,766</u>

The accompanying notes are an integral part of this consolidated financial statement.

The Pennsylvania Horticultural Society

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Years ended June 30, 2021 and 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2019	\$ 24,287,491	\$ 35,798,081	\$ 60,085,572
Changes in net assets	<u>(5,611,722)</u>	<u>(1,511,084)</u>	<u>(7,122,806)</u>
Balance, June 30, 2020	18,675,769	34,286,997	52,962,766
Changes in net assets	<u>2,697,097</u>	<u>8,720,285</u>	<u>11,417,382</u>
Balance, June 30, 2021	<u>\$ 21,372,866</u>	<u>\$ 43,007,282</u>	<u>\$ 64,380,148</u>

The accompanying notes are an integral part of these consolidated financial statements.

The Pennsylvania Horticultural Society

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2021

	Program Activities				Supporting Activities		Total
	Flower Show	Urban Greening	Education Services	Meadowbrook Farm	Management and General	Development	
Salaries	\$ 1,920,563	\$ 2,455,837	\$ 529,363	\$ 376,238	\$ 2,199,242	\$ 939,888	\$ 8,421,131
Employee benefits	626,147	893,594	193,703	78,072	663,056	329,863	2,784,435
Staging	2,808,457	-	-	-	-	-	2,808,457
Exhibitor cost reimbursements	1,199,022	-	-	-	-	-	1,199,022
Flower Show License Fee	25,000	-	-	-	-	-	25,000
Advertising and publicity	680,824	40,776	4,670	2,309	16,959	28,773	774,311
Professional services	403,541	10,358	1,232	-	353,398	260,271	1,028,800
Program and project expenses	3,446,868	6,430,057	163,907	289,292	-	492,378	10,822,502
Publications	-	-	300,454	-	-	-	300,454
Training and development	15,468	24,918	5,368	2,850	18,033	8,012	74,649
Occupancy	132,683	213,743	46,045	58,258	319,872	68,727	839,328
Depreciation	156,553	269,264	26,130	49,579	87,780	39,002	628,308
Insurance	226,600	127,946	10,008	22,713	36,345	17,201	440,813
Office expenses	47,250	30,729	3,654	-	1,099,080	6,279	1,186,992
Subtotal	11,688,976	10,497,222	1,284,534	879,311	4,793,765	2,190,394	31,334,202
Allocation of management and general	2,115,926	1,900,196	232,525	148,615	(4,793,765)	396,503	-
Total functional expenses	<u>\$ 13,804,902</u>	<u>\$ 12,397,418</u>	<u>\$ 1,517,059</u>	<u>\$ 1,027,926</u>	<u>\$ -</u>	<u>\$ 2,586,897</u>	<u>\$ 31,334,202</u>

The accompanying notes are an integral part of this consolidated financial statement.

The Pennsylvania Horticultural Society

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2020

	Program Activities				Supporting Activities		Total
	Flower Show	Urban Greening	Education Services	Meadowbrook Farm	Management and General	Development	
Salaries	\$ 1,849,319	\$ 2,291,058	\$ 665,299	\$ 295,475	\$ 2,370,875	\$ 1,070,810	\$ 8,542,836
Employee benefits	571,178	762,691	215,087	129,187	778,393	352,926	2,809,462
Staging	2,352,212	-	-	-	-	-	2,352,212
Exhibitor cost reimbursements	1,151,306	-	-	-	-	-	1,151,306
Flower Show License Fee	272,000	-	-	-	-	-	272,000
Advertising and publicity	477,272	20,874	1,465	3,420	4,809	3,523	511,363
Professional services	109,441	11,243	1,713	-	499,642	110,247	732,286
Program and project expenses	1,483,934	5,761,211	168,760	320,646	-	500,408	8,234,959
Publications	-	-	320,035	-	-	-	320,035
Training and development	22,821	36,439	8,154	1,544	24,020	15,818	108,796
Occupancy	176,956	282,550	63,228	94,618	216,791	118,160	952,303
Depreciation	164,776	188,244	27,778	51,682	73,130	48,163	553,773
Insurance	164,191	148,440	9,291	29,015	30,491	13,778	395,206
Office expenses	62,527	35,276	5,375	-	1,055,076	7,971	1,166,225
Subtotal	8,857,933	9,538,026	1,486,185	925,587	5,053,227	2,241,804	28,102,762
Allocation of management and general	1,935,534	2,084,141	324,745	218,954	(5,053,227)	489,853	-
Total functional expenses	<u>\$ 10,793,467</u>	<u>\$ 11,622,167</u>	<u>\$ 1,810,930</u>	<u>\$ 1,144,541</u>	<u>\$ -</u>	<u>\$ 2,731,657</u>	<u>\$ 28,102,762</u>

The accompanying notes are an integral part of this consolidated financial statement.

The Pennsylvania Horticultural Society
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30,

	2021	2020
Operating activities:		
Changes in net assets	\$ 11,417,382	\$ (7,122,806)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Change in pension valuation	(2,033,165)	959,368
Change in fair value of beneficial interest in perpetual trust	(446,833)	57,794
Depreciation	628,310	553,775
Interest on PPP Loan	18,198	
Net realized and unrealized (gain) loss on investments	(13,813,043)	2,381,843
Gain on forgiveness of PPP Loan	(1,943,488)	
Gain on disposal of property and equipment	-	(14,076)
Changes in:		
Accounts and contributions receivable	(3,168,226)	(1,076,059)
Prepaid expenses and other assets	160,536	(134,177)
Inventory	18,762	14,369
Accounts payable and accrued expenses	1,891,595	341,386
Accrued pension obligations	277,751	68,401
Deferred revenue and membership dues	275,057	(48,750)
Tenant improvement allowance	(91,612)	(91,612)
Annuities payable	(7,377)	6,593
Net cash used in operating activities	(6,816,153)	(4,103,951)
Investing activities:		
Purchase of property and equipment	(297,121)	(657,727)
Purchases of investments	(4,749,813)	(6,348,252)
Proceeds from sale of investments	12,577,279	8,721,784
Proceeds from sale of equipment	2,000	14,076
Net cash provided by investing activities	7,532,345	1,729,881
Financing activities:		
Proceeds from credit line borrowings	2,675,000	1,700,000
Repayments on credit line borrowings	(1,125,000)	(2,100,000)
Proceeds from installment loan obligations	-	17,143
Repayments on installment loan obligations	(14,506)	(11,860)
Principal payments on capital lease obligations	(30,438)	(32,242)
Proceeds from Paycheck Protection Program Loan	-	1,925,290
Net cash provided by financing activities	1,505,056	1,498,331
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,221,248	(875,739)
Cash and cash equivalents, beginning of year	440,665	1,316,404
Cash and cash equivalents, end of year	\$ 2,661,913	\$ 440,665
Supplemental information:		
Cash paid for interest	\$ 71,828	\$ 35,439

The accompanying notes are an integral part of these consolidated financial statements.

The Pennsylvania Horticultural Society
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

The Pennsylvania Horticultural Society (the Society) is a not-for-profit membership organization founded in 1827 that offers programs, activities, workshops and publications for gardeners of all levels and interests. The Society connects people with horticulture, and together it creates beautiful, healthy and sustainable communities.

Proceeds from the Society's Philadelphia Flower Show, as well as contributions and contracts from foundations, corporations, government agencies and individuals, support the Society's programs and initiatives, including community education, training opportunities and a comprehensive urban greening program supporting the development and ongoing care of community gardens, parks, vacant land, sustainable environmental initiatives and high profile public green spaces.

The Society is the sole member of Meadowbrook Farm, a not-for-profit entity. Meadowbrook Farm is a garden estate that provides facilities for Society educational programs and gardens that are open to the public for tours. The Society is required to maintain Meadowbrook Farm in perpetuity pursuant to the bequest of the donor's estate.

The Society is also the sole member of Philadelphia Flower Show, Incorporated (PFSI), a not-for-profit entity.

The accompanying consolidated financial statements include the activities of the Society, Meadowbrook Farm and PFSI, collectively referred to as the Society. All significant intercompany balances have been eliminated.

Cash and Cash Equivalents

The Society considers all highly liquid debt instruments purchased with an original maturity of three months or less, which are not intended to be held for investment purposes, to be cash equivalents.

Contributions and Net Assets

Net assets are categorized as follows:

Net assets without donor restrictions: are available for use at the discretion of the Board of Directors (the Board) and/or management for general operating purposes. From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion.

Net assets with donor restrictions: consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Society to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a Board approved pending policy.

Contributions, including unconditional pledges, are recognized as revenue in the period the promise is received. Contributions of assets other than cash are recorded at their estimated fair values at the date of donation.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time or purpose restriction is accomplished), net assets with donor restrictions are transferred to net assets without donor restrictions. Donor restricted contributions whose restrictions are met in the same fiscal year are initially recorded as net assets with donor restrictions and subsequently reclassified as net assets without donor restrictions.

When the Society receives contributions of long-lived assets or cash or other assets restricted to the purchase of long-lived assets, the related net assets with donor restrictions are released to net assets without donor restrictions when the asset is placed into service.

Investment income and gains earned on net assets with donor restrictions of a perpetual nature are recorded as net assets with donor restrictions until they are permitted to be transferred to net assets without donor restrictions for use in operations (see Note K).

Allowance for Doubtful Accounts

The Society continually monitors accounts and contributions receivable for collectability issues. An allowance for doubtful accounts is based upon management's judgment and is established based on a review of the types of individual accounts, prior collection history, the nature of services provided and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. The allowance for doubtful accounts was \$12,000 and \$29,000 as of June 30, 2021 and 2020, respectively.

Inventory

Inventory primarily relates to plants and other items offered for sale at Meadowbrook Farm. Inventory is valued at the lower of cost or market. Cost is determined on a first in, first out basis.

Property and Equipment

Property and equipment are capitalized at cost, at the date of purchase, or at fair market value as of the date of donation. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives. Amortization of leasehold improvements is included in depreciation.

Nursery buildings	10 years
Furniture and equipment	3-10 years
Machinery and equipment	5 years
Vehicles	5 years
Nursery improvements	5 years
Leasehold improvements	Lesser of lease term or useful life
Equipment and vehicles under capital leases	4-5 years

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Investments and Beneficial Interest in Perpetual Trust

The Society's investments are stated at fair value (see Note F). Purchases and sales of securities are recorded on a trade-date basis. Interest is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The Society has adopted an investment policy for all investments to produce a predictable level of income and appreciation to meet the Society's organizational objectives while achieving a maximum total return for the assets at a level consistent with prudent management. Under this policy, as approved by the Board, the assets are invested in a manner that is intended to produce returns that exceed spending, while assuming a moderate level of investment risk. Actual returns may vary from the intended results. To satisfy its long-term rate of return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation and yield. The Society targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The beneficial interest in perpetual trust is stated at fair value. The investment policy of the beneficial interest in perpetual trust is determined and administered by a third-party trustee. The Society is the beneficiary of income earned based on the spending rule policy of the trust.

Collections

The Society does not capitalize its collections. All collections are protected and preserved and are held for exhibition to the public for educational purposes and not financial gain. It is the Society's policy to designate proceeds from the sale of collection items for the purchase of other collection items. The collections are material to the consolidated financial statements and include library, art and educational assets, and the Meadowbrook Farm gardens and house. The purchase of additional collections and proceeds from the sale of collections are reflected on the consolidated statements of activities as change in net assets related to collection items not capitalized, collection items purchased but not capitalized, and proceeds from sales of collection items if applicable, respectively.

Gift Annuities

The Society maintains a gift annuity program whereby the Society receives a transfer of assets from a donor and agrees to pay such annuitant a fixed amount of money quarterly for their lifetime. Upon the death of the annuitant, the remaining balance will be available for the Society for daily operations. The annuity is not assignable, with the exception that it may be assigned to the Society.

Revenue Recognition

The Society adopted Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers (ASC 606)*, effective July 1, 2020. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The Society recognizes revenue when control of the promised goods or services is transferred to outside parties in an amount that reflects the consideration the Society expects to be entitled to in exchange for those goods or services.

ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amounts, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The results of applying ASC 606 using the modified retrospective approach for the year ended June 30, 2021 did not have a material impact on the financial statements, business processes, controls or systems of the Society.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Deferred Revenue and Membership Dues

Deferred revenue and membership dues include income received under fee-for-service grants and governmental contracts for services that have not yet been performed, the unearned portion of membership dues, the value of Grow Magazine subscriptions not yet delivered, and deposits received from vendors for the following year's Marketplace at the Flower Show.

Tenant Improvement Allowance

In March 2014, the Society signed an amendment to the lease agreement for its office space. The amendment includes a tenant improvement allowance in the amount of \$1,259,664, which was used to construct improvements and renovations to the space and has been capitalized as leasehold improvements as of June 30, 2021 and 2020, respectively. The allowance is being amortized over the life of the lease and had a balance of \$641,284 and \$732,896 as of June 30, 2021 and 2020, respectively.

Sponsorships

The Society receives sponsorships from organizations that help to support both the Flower Show and the Society's urban greening programs. Such revenue is accounted for as exchange transactions in the accompanying consolidated financial statements.

Income Taxes

The Society, PFSI and Meadowbrook Farm follow guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Society, and Meadowbrook Farm are exempt from federal income tax under Internal Revenue Code (IRC) section 501(c)(3). PFSI is exempt from federal income tax under IRC section 501(c)(5). The Society is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Society has a net operating loss carryforward, of approximately \$566,000. A full valuation allowance has been established for the deferred tax asset resulting from the net operating loss carryforward since it is uncertain as to whether or not it will be utilized in the future. The Society, PFSI and Meadowbrook Farm have processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Society, PFSI and Meadowbrook Farm have determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Advertising Costs

The Society expenses advertising costs as incurred. Advertising expense was approximately \$660,000 and \$437,000 for the years ended June 30, 2021 and 2020, respectively.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting period. Estimates used in accounting include calculating the fair value of investments, determining useful lives for depreciation and amortization of long-lived assets, calculation of pension benefit obligations, allowance for doubtful accounts, functional expense allocation, and evaluating contingencies. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. A portion of general and administrative costs that benefit multiple functional areas have been allocated across programs and other supporting services based on the proportion of full-time employee equivalents of a program or other supporting activity as compared to total organizational full-time employee equivalents.

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Society. These expenses include depreciation and amortization, interest, communications, information technology and facilities operations and maintenance. Depreciation is allocated based on the usage of the property and equipment. Interest is allocated based on the respective assets that are being financed, with interest on credit line borrowings allocated to management and general expense. Costs of other categories were allocated on the basis of employee salaries and headcount. Total expense includes all operating expenses exclusive of post retirement changes other than net periodic benefit costs.

Defined Benefit Pension Plan

The Society accounts for its defined benefit plan in accordance with the recognition and measurement provision of Financial Accounting Standards Board (FASB) ASC Topic 715, *Compensation - Retirement Benefits*.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. Early application is permitted. An entity is required to apply the amendments in ASU 2016-02 under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. The Society is determining the impact of ASU 2016-02 at this time.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

COVID-19 Pandemic

The COVID-19 pandemic, whose effects first became apparent in January 2020, continues to have a broad and negative impact on commerce and financial markets around the world. The Society has taken certain measures to mitigate the effects of the pandemic on its operations and financial performance, including applying for a loan under the Paycheck Protection Program (PPP) and requesting forgiveness of the loan, which was granted, increasing its authorized line of credit amount, and shifting the production of the Philadelphia Flower Show to an outdoor event later in the season, in order to maximize the number of visitors who could attend. The extent of the remaining impact of COVID-19 on the Society's operational and financial performance will depend on certain future developments, including the duration and spread of the outbreak which, at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Society's future financial position and changes in net assets and cash flows cannot be determined at this time.

NOTE B - CONCENTRATION OF CREDIT RISK

Cash

The Society maintains its cash balances in the custody of two financial institutions in non-interest and interest bearing accounts. The Society's accounts are insured up to the Federal Deposit Insurance Corporation limit of \$250,000 at each financial institution. At June 30, 2021 and 2020, the total cash balance on deposit with banks in aggregate of approximately \$4,162,446 and \$848,710, respectively, exceeded the federal insured limits by approximately \$3,770,077 and \$540,901, respectively. The Society mitigates any potential risk by depositing funds with major financial institutions. The Society has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Significant Grants and Contributions Receivable and Revenue

At June 30, 2021, the Society had uncollateralized accounts receivable from various public agencies and individuals. One agency made up approximately 67% and 77% of government contract revenues for the years ended June 30, 2021 and 2020, respectively. Two agencies made up approximately 74% and 80% of government grants accounts receivable as of June 30, 2021 and 2020, respectively. Two not-for-profit agencies made up approximately 26% of other grants and contributions revenue for the year ended June 30, 2021, and one individual donor made up approximately 12% of other grants and contributions revenue for the years ended June 30, 2020 respectively. Five individual donors and not-for-profit agencies made up approximately 77% and 70% of other grants and contributions receivable as of June 30, 2021 and 2020, respectively.

Investments

The Society invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the Society's consolidated statements of financial position and consolidated statements of activities.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE C - OTHER GRANTS, CONTRIBUTIONS AND BEQUESTS RECEIVABLE

Other grants, contributions and bequests receivable at June 30, 2021 and 2020 of \$1,557,562 and \$1,589,026, respectively, are all expected to be received per the following schedule:

Year Ending June 30,

2022	\$ 1,165,922
2023	391,640

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Nursery buildings	\$ 562,607	\$ 562,607
Furniture and equipment	5,115,315	4,918,938
Machinery and equipment	532,819	514,852
Vehicles	271,212	270,962
Nursery improvements	638,474	631,893
Leasehold improvements	2,907,608	2,665,956
Construction in progress	-	194,864
Equipment and vehicles under capital leases	<u>336,015</u>	<u>336,015</u>
	10,364,050	10,096,087
Less: accumulated depreciation	<u>(8,110,781)</u>	<u>(7,510,208)</u>
	<u>\$ 2,253,269</u>	<u>\$ 2,585,879</u>

Depreciation expense was \$628,310 and \$553,775 for the years ended June 30, 2021 and 2020, respectively.

NOTE E - INVESTMENTS AND BENEFICIAL INTEREST IN PERPETUAL TRUST

Investments and beneficial interest in perpetual trust at fair value (see Note F) are as follows at June 30,

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 45,470	\$ 2,567,141
Mutual funds	26,279,848	21,491,536
Equity securities	4,571,685	4,520,718
Closed-end International Equity	2,822,486	2,792,649
Exchange-traded funds	4,056,347	3,755,375
Common investment funds	<u>21,092,350</u>	<u>17,755,190</u>
	58,868,186	52,882,609
Beneficial interest in perpetual trust	<u>2,206,364</u>	<u>1,759,530</u>
Total	<u>\$ 61,074,550</u>	<u>\$ 54,642,139</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Interest and dividends are shown on the consolidated statements of activities net of investment expense of \$293,992 and \$293,184 for the years ended June 30, 2021 and 2020, respectively.

NOTE F - FAIR VALUE MEASUREMENTS

The Society accounts for the fair value of its financial instruments in accordance with the guidance in ASC Topic 820, *Fair Value Measurements (ASC 820)*. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

- Level 1 Inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data; and
- Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Investments at Net Asset Value

ASC 820 provides a practical expedient for investments where fair value is measured at net asset value (NAV) per share (or its equivalent). Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category are the common investment funds which generally include private fund investment structures and limited partnership interests, without quoted prices.

Alternative investments for which quoted market prices are not available are valued based on the NAV, as a practical expedient, of the underlying funds owned by the trust, less its liabilities and then divided by the number of shares outstanding.

The following is a description of the valuation methodologies used for investments measured at fair value as of June 30, 2021 and 2020:

Level 1 Fair Value Measurements

Money market funds, mutual funds and exchange-traded funds are valued based on quoted market prices in active markets for identical assets. Equity securities are valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds are valued based on quoted NAVs of the shares held by the Society.

Level 2 Fair Value Measurements

The Closed-end International Equity fund contains investments that are foreign public equity securities wherein the custodian invests in closed-end funds holding these equities. While inputs used to value these securities includes quoted prices in active markets, additional information used includes monthly liquidity metrics and net asset values.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Level 3 Fair Value Measurements

The beneficial interest in the perpetual trust is valued based on the fair value of the underlying investments of the trust, which consists of money market funds, equity securities and mutual funds. The Society will never have the ability to redeem its interest in the trust.

The following tables set forth by level, within the fair value hierarchy, the Society's investments and beneficial interest in perpetual trust measured at fair value as of June 30, 2021 and 2020:

June 30, 2021					
Description	Level 1	Level 2	Level 3	Investments at NAV	Total
Money market funds	\$ 45,470	\$ -	\$ -	\$ -	\$ 45,470
Mutual funds	26,279,848	-	-	-	26,279,848
Equity securities	4,571,685	-	-	-	4,571,685
Closed-end international equity	-	2,822,486	-	-	2,822,486
Exchange-traded funds	4,056,347	-	-	-	4,056,347
Common investment funds:					
Alternative Value	-	-	-	8,568,340 (a)	8,568,340
Growth and emerging markets	-	-	-	8,512,409 (b)	8,512,409
Growth and emerging markets	-	-	-	4,011,601 (c)	4,011,601
Beneficial interest in perpetual trust	-	-	2,206,364	-	2,206,364
Total assets, at fair value	\$ 34,953,350	\$ 2,822,486	\$ 2,206,364	\$ 21,092,350	\$ 61,074,550
June 30, 2020					
Description	Level 1	Level 2	Level 3	Investments at NAV	Total
Money market funds	\$ 2,567,141	\$ -	\$ -	\$ -	\$ 2,567,141
Mutual funds	21,491,536	-	-	-	21,491,536
Equity securities	4,520,718	-	-	-	4,520,718
Closed-end International Equity	-	2,792,649	-	-	2,792,649
Exchange-traded funds	3,755,375	-	-	-	3,755,375
Common investment funds:					
Alternative Value	-	-	-	7,543,292 (a)	7,543,292
Growth and emerging markets	-	-	-	7,484,004 (b)	7,484,004
Growth and emerging markets	-	-	-	2,727,894 (c)	2,727,894
Beneficial interest in perpetual trust	-	-	1,759,530	-	1,759,530
Total assets, at fair value	\$ 32,334,770	\$ 2,792,649	\$ 1,759,530	\$ 17,755,190	\$ 54,642,139

(a) These funds consist of the following:

1. The Parametric Defensive Equity Fund LLC invests in a combination of S&P 500 index futures and ETFs and cash instruments. The fund also writes put and call options against these positions to earn the volatility risk premium of the options; as these options are fully collateralized, the fund takes no explicit leverage. The investment can be redeemed monthly, with prior notice of five days. There are no unfunded commitments to these funds as of June 30, 2021 and 2020.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

2. Magnitude International Class A invests in underlying direct hedge funds. The fund management's objective is to deliver attractive risk-adjusted returns through manager selection, seeking out compelling opportunities and limiting passive exposures to major risk factors. The investment can be redeemed quarterly, with prior notice of 65 days. There are no unfunded commitments to the fund as of June 30, 2021 and 2020.
 3. Harvest MLP Income Fund invests in publicly-traded MLPs and U.S. energy infrastructure companies. The fund management's objective is to take advantage of opportunities to invest in MLPs and U.S. energy infrastructure companies. The investment can be redeemed monthly, with prior notice of 30 days. There are no unfunded commitments to the fund as of June 30, 2021 and 2020.
 4. Marathon Distressed Credit (Europe) Fund invests primarily in the debt of stressed and distressed corporations, including listed bonds, directly originated loans, and other debt instruments. The fund seeks to create return through bankruptcy restructurings or through yield generated from the debt investments. As a closed end fund, the fund does not have voluntary liquidity rights; the stated fund life is five years, with two optional one-year extensions. The fund will also make distributions throughout its life as investments are realized. As of June 30, 2021, the Society has an unfunded commitment for this investment in the amount of \$660,000.
- (b) The Silchester International Value Equity Trust invests in publicly traded, non-U.S. equity securities. Management of the fund does not short securities, utilize leverage, margin or borrow. The investment approach is a bottom up one. The investment can be redeemed on the first business day of each month and requires a notice of at least six days before the end of the month. There are no unfunded commitments to the fund as of June 30, 2021 and 2020.
- (c) City of London Emerging Market Equity Fund invests in equities of international companies that derive the majority of their profits from emerging economies. The fund's objective is to allocate assets through fundamental analysis with durations of 12 to 18 months. There are no redemption restrictions and no unfunded commitments as of June 30, 2021 and 2020.

The following is a reconciliation of financial instruments for which significant unobservable inputs (Level 3) were used in determining value.

	2021	2020
Beneficial interest in perpetual trust		
Beginning balance, July 1,	\$ 1,759,530	\$ 1,817,324
Dividends reinvested	33,415	36,629
Withdrawals	(85,754)	(93,200)
Fees	(29,033)	(20,400)
Unrealized gain	528,206	19,177
Ending balance, June 30,	\$ 2,206,364	\$ 1,759,530

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE G - CAPITAL LEASE OBLIGATIONS

The Society leases equipment under capital leases that expire through 2023. The future minimum lease payments under these capital leases, and the present value of the net minimum lease payments are as follows:

<u>Years Ending June 30,</u>			
2022	\$	27,879	
2023		13,529	
Total minimum lease payments			41,408
Less imputed interest ^(a)			<u>(3,118)</u>
Total		\$	<u>38,290</u>

^(a) Amount necessary to reduce minimum lease payments to present value calculated at the Society's incremental borrowing rate at the inception of the leases.

NOTE H - LINE OF CREDIT

The Society has a revolving line of credit agreement with a bank in the amount of \$5,000,000 that expires in May, 2022. The line of credit bears interest at the greater of the LIBOR Daily Floating Rate or the Index Floor, plus 2.25%. The Index Floor is specified as 1.25%. The line of credit is secured by certain investments pledged as collateral. Under the agreement, the Society may borrow up to the lesser of \$5,000,000 or the Borrowing Base. The Borrowing Base consists of the sum of the Collateral Value of the investments, determined as of the close of the most recent regular trading day, multiplied by the applicable Advance Percentage for each type of investment. Interest is payable monthly. The Society is not subject to any financial ratio covenants under this agreement. The current line of credit replaces the Society's previous line of credit agreement with the bank. As of June 30, 2021 and 2020, the Society had \$1,550,000 and \$0, respectively, outstanding on its line of credit and incurred interest expense of \$67,832 and \$26,094, respectively, in each of the years then ended under these agreements.

NOTE I - INSTALLMENT LOAN OBLIGATIONS

The Society has two installment loan obligations with banks. The loans are secured by a vehicle and equipment. The loans are payable in monthly installments of principal and interest and bear interest at 5.29% and 3.74% per year.

The future principal maturities remaining under these obligations are as follows:

<u>Years Ending June 30,</u>			
2022	\$	14,522	
2023		10,620	
2024		<u>6,426</u>	
Total		\$	<u>31,568</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE J - LOAN PAYABLE - CARES ACT

In April 2020, the Society received a loan from the U.S. Small Business Administration (SBA) pursuant to the Paycheck Protection Program (PPP), under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). The loan is administered by a bank, bears interest at the rate of 1% per annum and is unsecured. Under the terms of the loan agreement, the Society applied for forgiveness of the entire outstanding principal balance of the loan and accumulated interest, and in April 2021, was advised by the bank and the SBA that the entire amount of the outstanding loan of \$1,925,290 plus accumulated interest of \$18,198 was forgiven.

The forgiveness amount of the loan and accumulated interest totaling \$1,943,488 is reflected in the consolidated statement of activities as Gain on Forgiveness of PPP loan.

NOTE K - ENDOWMENT FUNDS

The Society's investments include both donor-restricted endowment funds and funds designated by the Society's Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Society maintains the financial controls necessary to ensure proper expenditures from donor-restricted and Board-designated funds.

The Society maintains master investment accounts for its donor-restricted and Board-designated endowments. Realized and unrealized gains and losses as well as investment income from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Board-Designated Endowment Funds

In 2009, the Society's Board designated certain funds to function as endowments. A spending policy has been adopted by the Board providing for withdrawals from these funds in the amount necessary to sustain operations each year. For the year ended June 30, 2021, the Board authorized a transfer of its designated endowment funds to operations in the amount of \$6,834,927, including a special provision of \$4,621,192 relating to the production of the Philadelphia Flower Show. For the year ended June 30, 2020, total transfers of \$1,850,061 were authorized.

Donor Restricted Endowments

The use of donor restricted net assets and related income and gains is limited by Pennsylvania Statute Act 141. Each year, the Board determines the amount that can be spent, subject to donor restrictions. The Society has elected to utilize the total return concept for administering its donor restricted funds by transferring between 2% and 7% of the fair value of the investments (based upon an average of three or more years).

Meadowbrook Farm

Funds with donor restrictions for the benefit of Meadowbrook Farm are available to support Meadowbrook Farm operations and programs. During the years ended June 30, 2021 and 2020, the Board authorized transfers of approximately 5%, which amounted to \$716,219 and \$716,275, respectively.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Other

Endowment funds with donor restrictions on the income for other purposes are available to support urban greening and other programs. During the years ended June 30, 2021 and 2020, the Board authorized transfers of 4%, which amounted to \$ 62,738 and \$60,864, respectively.

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to maintain as a fund of perpetual duration. Deficiencies of this nature exist in one donor restricted endowment fund, which has an original gift value of \$14,495,416, a current fair value of \$13,387,005 and a deficiency of \$1,108,411 as of June 30, 2020. This deficiency in original gift value resulted from unfavorable market fluctuations that occurred after continued appropriation for certain programs that were deemed prudent by the Board of Directors. There were no deficiencies as of June 30, 2021.

Beneficial Interest in Perpetual Trust - Donor Restricted Endowment

Under the terms of a perpetual trust held by a third party, the Society is the beneficiary of income earned based on the spending rule policy of the trust. Changes in the fair value of the trust's assets are recognized as a change in fair value of beneficial interest in perpetual trust in the consolidated statements of activities. Income is unrestricted and is recorded in the period received by the Society on the consolidated statements of activities.

Endowment Funds - Net Asset Composition

The Society's endowment funds by net asset category are as follows as of June 30, 2021 and 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
2021			
Donor-restricted endowment funds	\$ -	\$ 19,551,864	\$ 19,551,864
Board-designated endowment funds	22,236,983	-	22,236,983
Total funds	\$ 22,236,983	\$ 19,551,864	\$ 41,788,847
2020			
Donor-restricted endowment funds	\$ -	\$ 15,859,523	\$ 15,859,523
Board-designated endowment funds	23,055,042	-	23,055,042
Total funds	\$ 23,055,042	\$ 15,859,523	\$ 38,914,565

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The Society had the following endowment fund related activities for the years ended June 30, 2021 and 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at June 30, 2019	\$ 25,525,969	\$ 17,123,321	\$ 42,649,290
Investment income	393,349	271,003	664,352
Net realized/unrealized gain	<u>(1,036,260)</u>	<u>(717,662)</u>	<u>(1,753,922)</u>
Total investment return	(642,911)	(446,659)	(1,089,570)
Appropriations of endowment assets for expenditure	<u>(1,828,016)</u>	<u>(817,139)</u>	<u>(2,645,155)</u>
Total additions/withdrawals on investment	<u>(1,828,016)</u>	<u>(817,139)</u>	<u>(2,645,155)</u>
Balance at June 30, 2020	23,055,042	15,859,523	38,914,565
Investment income	311,178	238,566	549,744
Net realized/unrealized gain	<u>5,712,093</u>	<u>4,316,972</u>	<u>10,029,065</u>
Total investment return	6,023,271	4,555,538	10,578,809
Appropriations of endowment assets for expenditure	<u>(6,841,330)</u>	<u>(863,197)</u>	<u>(7,704,527)</u>
Total additions/withdrawals on investment	<u>(6,841,330)</u>	<u>(863,197)</u>	<u>(7,704,527)</u>
Balance at June 30, 2021	<u>\$ 22,236,983</u>	<u>\$ 19,551,864</u>	<u>\$ 41,788,847</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE L - NET ASSETS

Net assets consist of:

	June 30,	
	2021	2020
Net assets without donor restrictions:		
Unrestricted	\$ (1,638,349)	\$ (3,730,630)
Board designated endowment	22,236,983	23,055,042
Pension benefit obligation	(1,479,037)	(3,234,522)
Net investment in property and equipment	2,253,269	2,585,879
	<u>21,372,866</u>	<u>18,675,769</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Programs and support	24,102,489	15,829,038
Subject to restriction in perpetuity:		
Beneficial interest in perpetual trust	2,206,364	1,759,530
Endowment funds:		
Meadowbrook Farm	14,495,416	14,495,416
Other funds	2,203,013	2,203,013
	<u>18,904,793</u>	<u>18,457,959</u>
	<u>43,007,282</u>	<u>34,286,997</u>
Total net assets with donor restrictions		
	<u>\$ 64,380,148</u>	<u>\$ 52,962,766</u>

Net assets with donor restrictions as of June 30 are as follows:

Net assets subject to expenditure for specific purposes on the passage of time:

	2021	2020
Flower Show	\$ 328,001	\$ 81,274
Urban Greening	4,446,663	2,730,635
Education Services	66,532	27,032
Meadowbrook Farm		
General operations in future periods	1,977,123	(1,108,411)
Philadelphia Museum of Art		
Landscape Restoration Fund	1,524,614	1,243,657
Legacy Landscapes	15,567,579	12,737,237
Other	191,977	117,614
	<u>\$ 24,102,489</u>	<u>\$ 15,829,038</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Net assets subject to restriction in perpetuity:

	<u>2021</u>	<u>2020</u>
Beneficial interest in perpetual trust	\$ 2,206,364	\$ 1,759,530
Urban Greening	1,028,013	1,028,013
Meadowbrook Farm	14,495,416	14,495,416
Flower Show	1,000,000	1,000,000
Other	<u>175,000</u>	<u>175,000</u>
	<u>\$ 18,904,793</u>	<u>\$ 18,457,959</u>

NOTE M - LIQUIDITY AND FUNDS AVAILABLE

The Society maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In order to manage unanticipated liquidity needs, the Society has a line of credit in the amount of \$5,000,000, of which \$1,550,000 was outstanding as of June 30, 2021.

The following table reflects the Society's financial assets as of June 30, 2021 and 2020 reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, trust assets, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as Board-designated endowments. These Board designations could be drawn upon if the board approves that action.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 2,661,913	\$ 440,665
Accounts and contribution receivable	8,648,518	5,480,292
Investments	58,868,186	52,882,609
Beneficial interest in perpetual trust	2,206,364	1,759,530
Financial assets, at year-end	72,384,981	60,563,096
Less those unavailable for general expenditure within one year, due to:		
Investments and perpetual trusts held by others not convertible to cash within next 12 months	(2,206,364)	(1,759,530)
Contribution and accounts receivable collectible beyond one year	(391,640)	(255,000)
Investments and other financial assets held for others	(51,071)	(51,021)
Restricted by donors with purpose restrictions	(24,097,013)	(15,829,038)
Restricted by donors in perpetuity	(16,698,429)	(16,698,429)
	(43,444,517)	(34,593,018)
Amounts unavailable to management without Board approval:		
Board designated investments	(18,796,665)	(16,220,116)
Financial assets available to meet cash needs for general expenditures within one year	\$ 10,143,799	\$ 9,749,962

Included within net assets with donor restrictions are Board-designated endowment funds (Note K). These funds could be accessed to satisfy operations with action by the Board.

NOTE N - COMMITMENTS AND CONTINGENCIES

Investments

The Society has an unfunded commitment in the amount of \$660,000 as of June 30, 2021 in connection with its investment in Marathon Distressed Credit (Europe) Fund.

Leases

The Society leases warehouse and office space under operating leases expiring in 2022 and 2028, respectively. Total rent expense was \$717,791 and \$741,924 for the years ended June 30, 2021 and 2020, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The following is a schedule by year of approximate future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2021:

<u>Years Ending June 30,</u>	
2022	\$ 714,833
2023	674,820
2024	684,817
2025	739,803
2026	769,795
Thereafter	<u>1,589,576</u>
Total	<u>\$ 5,173,644</u>

Potential Lawsuits

At times, the Society is subject to disputes or legal actions in the ordinary course of business. Management does not believe the outcome of such disputes or legal actions will have a material adverse effect on the Society's financial position or results of operations.

NOTE O - LICENSE AGREEMENTS

The Society has license agreements with the City of Philadelphia and the Pennsylvania Convention Center in connection with its presentation of the Philadelphia Flower Show. The license fee expense with the City of Philadelphia for the year ended June 30, 2021 was \$25,000 and the license fee expense with the Pennsylvania Convention Center for the year ended June 30, 2020 was \$272,000. During the year 2020, the Pennsylvania Convention Center license was temporarily suspended on a voluntary basis.

NOTE P - PENSION PLANS

Defined Benefit Plan

The Society has a non-contributory defined benefit pension plan (the Plan). The Plan provides for pre-retirement death benefits, as well as pension benefits. The Society's funding policy is to contribute amounts at least equal to the minimum funding requirements as required by the Employee Retirement Income Security Act of 1974, as amended. The Society contributed \$225,000 to the plan for each of the years ended June 30, 2021 and 2020. The expected contribution to the Plan for the year ending June 30, 2022 is \$195,000. Effective January 1, 2007, the Executive Committee of the Council of the Society froze the Plan to new participants and froze the accrual of benefits under the Plan.

The Society's investment policy for the Plan assets is to seek long-term growth by maintaining a diverse, actively managed portfolio of equity and fixed income securities, with targeted allocations of approximately 60% in equity securities and 40% in fixed income securities. Cash and cash equivalents are not to be held except on a temporary basis. The assets will be reallocated periodically to meet the targeted allocations. The Society has an Investment Committee that monitors the performance of its investment managers and uses outside investment analysts to analyze and comment on the Society's investment strategy.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The Society has adopted the recognition provisions of ASC Topic 715, *Compensation - Retirement Benefits*, which requires that the funded status of defined benefit pension and postretirement plans be fully recognized in the consolidated statements of financial position.

The Society utilizes a June 30 measurement date for the Plan.

The following table sets forth the Plan's funded status and amounts recognized in the consolidated financial statements as of and for the years ended June 30,

	2021	2020
Projected Benefit Obligation	\$ (8,017,574)	\$ (8,598,058)
Fair value of plan assets, net of liabilities	6,538,608	5,363,214
Excess of benefit obligation over plan assets	\$ (1,478,966)	\$ (3,234,844)

The components of net periodic pension cost include the following at June 30,

	2021	2020
Amounts recognized in the consolidated statements of financial position		
Accrued pension obligation	\$ 1,478,966	\$ 3,234,844
Unrestricted net assets (actuarial loss)	(1,651,057)	(3,684,222)
Weighted average assumptions:		
Discount rate	2.50%	2.15%
Expected return on Plan assets	5.75%	5.75%
Contributions	225,000	\$225,000
Benefits paid	567,881	329,788
Accumulated benefit obligation	8,017,574	8,598,058
Service cost	127,688	108,077
Interest cost	176,717	221,186
Amortization of net gain	486,008	278,127
Expected return on Plan assets	(288,126)	(313,388)
Total	\$ 502,287	\$ 294,002

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

	2021	2020
Amounts recognized in the consolidated statements of activities		
Net (gain) or loss	\$ (1,547,157)	\$ 1,237,495
Amortization of net (gain)	(486,008)	(278,127)
Net recognized pension (gain) or loss	\$ (2,033,165)	\$ 959,368

To develop the assumptions for the long-term rate of return, the Society considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets for the portfolio. This resulted in the selection of the 5.75% assumption.

The Plan's asset managers' investment approach/methodology is intended, over the long term, to provide performance in between Blended Index Returns and Blended Lipper Returns, which is performance between index and actively managed benchmarks.

The weighted-average asset allocations at June 30, by asset category, are as follows:

	2021	2020
Equity securities	48.46%	46.64%
International equities	20.77	20.04
Fixed income securities	28.43	26.39
Cash and cash equivalents	2.34	6.93
	100.00%	100.00%

As of June 30, 2021, the following benefit payments are expected to be paid:

Year Ending June 30,	
2022	\$ 533,704
2023	432,102
2024	434,910
2025	440,375
2026	431,087
2027-2031	2,232,511
Total	\$ 4,504,689

Expected benefit payments are based on the same assumptions used to measure the benefit obligation.

The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investment portfolio. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

The following is a description of the valuation methodologies used for the Plan's assets measured at fair value as of June 30:

Level 1 Fair Value Measurements

The fair value of mutual funds is based on quoted NAVs of the shares held by the Plan at year-end.

Level 2 Fair Value Measurements

The Closed-end International Equity fund contains investments that are foreign public equity securities wherein the custodian invests in closed-end funds holding these equities. While inputs used to value these securities includes quoted prices in active markets, additional information used includes monthly liquidity metrics and net asset values.

Investments at Net Asset Value

ASC 820 provides a practical expedient for investments where fair value is measured at NAV per share (or its equivalent). Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include private fund investment structures and limited partnership interests without quoted prices.

Alternative investments for which quoted market prices are not available are valued based on the NAV, as a practical expedient, of the underlying funds owned by the trust, less its liabilities, and then divided by the number of shares outstanding.

There were no investments valued based on Level 3 inputs as of June 30, 2021 and 2020.

The following tables set forth the components of the Plan's assets at fair value as of June 30, 2021 and 2020:

	2021			
	Level 1	Level 2	NAV	Total
Money market	\$ 152,912			\$ 152,912
Mutual funds				
Large cap	2,067,569	-	-	2,067,569
Mid cap	281,228	-	-	281,228
Small cap	233,752	-	-	233,752
Growth	738,768	-	-	738,768
Index	198,139	-	-	198,139
Fixed income	759,165	-	-	759,165
Closed-end International Equity	-	349,618	-	349,618
Exchange-traded funds	716,416	-	-	716,416
Common investment funds:				
Index	-	-	465,265	465,265
Fixed income	-	-	383,628	383,628
Alternative	-	-	192,609	192,609
	<u>\$ 5,147,949</u>	<u>\$ 349,618</u>	<u>\$ 1,041,502</u>	<u>\$ 6,539,069</u>

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

	2020			
	Level 1	Level 2	NAV	Total
Money market	\$ 376,642	\$ -	\$ -	\$ 376,642
Mutual funds				
Large cap	1,452,530	-	-	1,452,530
Mid cap	255,929	-	-	255,929
Small cap	178,567	-	-	178,567
Growth	679,937	-	-	679,937
Index	284,075	-	-	284,075
Fixed income	673,597	-	-	673,597
Closed-end International Equity	-	244,020	-	244,020
Exchange-traded funds	418,919	-	-	418,919
Common investment funds:				
Index	-	-	316,381	316,381
Fixed income	-	-	342,044	342,044
Alternative	-	-	212,622	212,622
	<u>\$ 4,320,196</u>	<u>\$ 244,020</u>	<u>\$ 871,047</u>	<u>\$ 5,435,263</u>

Defined Contribution Plan

The Society sponsors a defined contribution retirement plan (the DC Plan), pursuant to Section 403(b) of the Code, covering all employees of the Society at the beginning of the month following commencement of employment. The DC Plan allows for employee contributions to the DC Plan up to the maximum amount allowed by the Code. The Society makes safe harbor contributions to the DC Plan. The Society contributed \$ 259,760 and \$253,916 to the DC Plan for the years ended June 30, 2021 and 2020, respectively.

NOTE Q - CONTRIBUTED SERVICES

A number of unpaid volunteers have made significant contributions of time to the Society. The value of these contributed services is not reflected in these consolidated financial statements since they did not meet the criteria for recognition under U.S. GAAP.

NOTE R - RELATED-PARTY TRANSACTIONS

The Society has an agreement with Neighborhood Gardens Trust - A Philadelphia Land Trust (NGT) to collaboratively care for and strengthen the community garden network and open space in the City of Philadelphia using land in the land trust. NGT owns and/or leases 49 properties, of which 19 gardens participate in the Society's City Harvest program, and 20 additional gardens that are supported by the Society's Community Gardens Program, as of June 30, 2021. The arrangement furthers the missions of both organizations.

For the years ended June 30, 2021 and 2020, the Society provided approximately \$435,000 and \$123,000, respectively, of in-kind contributions related to the use of the Society office space and equipment, as well as program and administrative services provided by the Society employees on behalf of NGT. These gifts are recorded as expenses in the functional classification for the program in which the gifts in kind were used. As of June 30, 2021 and 2020, NGT owed \$ 65,834 and \$66,312, respectively, to the Society.

The Pennsylvania Horticultural Society

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE S - REVENUE RECOGNITION FROM EXCHANGE TRANSACTIONS

The Society has multiple revenue sources that are accounted for as exchange transactions under ASC 606, including membership dues and other revenue, consisting of ticket sales, fee-for-service contracts, special event income, sponsorship income, royalties, and meetings & workshop fees.

Membership Dues

The Society offers memberships consisting of various categories that typically last for a term of one year, and are billed annually. The Society recognizes membership dues ratably over the applicable membership period. Dues collected in advance are recorded as deferred revenue. Member benefits, including complementary tickets to the Philadelphia Flower Show and a subscription to the Society's publication, Grow Magazine, are included in membership dues packages. For the year ended June 30, 2021, a total of \$468,909 relating to the value of complementary tickets to the Philadelphia Flower Show, and \$168,336 relating to the value of Grow Magazine, are included as part of membership dues revenue in the accompanying financial statements.

Other Revenue

Revenue from ticket sales, fee-for-service contracts, special event income, sponsorship income, royalties, and meeting & workshop fees is recognized when the Society satisfies the accompanying performance obligation, namely, when the ticket is sold, the service is performed, or the event occurs.

As of June 30, 2021, the performance obligations corresponding to the deferred revenue balance totaling \$663,735, included in deferred revenue and membership dues, are expected to be satisfied during the fiscal year ending June 30, 2022 as follows:

Memberships	\$	431,272
Subscriptions to Grow Magazine		<u>232,463</u>
Total	\$	<u>663,735</u>

NOTE T - SUBSEQUENT EVENTS

The Society evaluated its June 30, 2021 consolidated financial statements for subsequent events through October 29, 2021 and is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.